News Release

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ANZ 2023 Half Year Results – Chief Executive Officer Shayne Elliott Speaking Notes

Good morning.

Today is the first time we are reporting as a Non-Operating Holding Company and it's particularly pleasing to do so with such a strong result.

But before we get into that, I do want to acknowledge the devastating impact Cyclone Gabrielle has had recently on the community and our customers and colleagues in New Zealand.

As the largest bank in New Zealand, we are acutely aware of the important role we play, and Antonia and the team are working directly with Government, communities, and customers, supporting the rebuild to get people back in their homes and businesses.

Full recovery will take time and we will continue to adapt our support as needs change.

Financials

Turning to results, this was a great half – a great half strategically and financially, delivering record revenues and cash profit for shareholders, with all four businesses performing strongly for customers.

Over many years, we've reshaped ANZ, through disposal of assets in lower performing or riskier segments, and growth in our chosen segments – helping people buy and own a home, start, run, and grow a business and move goods and capital around the region.

While those disposals have come at the cost of lost revenue, this result shows that we've not just replaced, but grown revenue and cash profit in the process, by doing fewer things and doing them well.

It has also strengthened our balance sheet, reduced overall risk and we close the half with more capital than ever before.

Reducing risk has been an important part of our strategy and I am pleased to see the continued reduction in the modelled internal expected loss rate, which has halved since I became CEO.

Even more significantly, actual credit losses over that period, which is ultimately what shareholders pay for, have consistently reduced from the highest of the major banks, by quite a margin, to the lowest today.

Our simplification strategy is delivering, and we are in great shape to meet future challenges and take opportunities.

It is therefore pleasing to announce a fully franked dividend of 81cps.

Strategy

The recent environment has been supportive, but we would not be able to deliver such an outcome without our transformation to a simpler, better bank.

Over 7 years we have exited over 30 non-core businesses, repositioned Institutional to be a sustainable, value creating business built around processing rather than lending, navigated significant capital and regulatory changes, particularly more recently in NZ, and invested heavily in Australian Retail and Commercial to transform and re-platform our propositions for long term differentiation.

Our focus on long term cost management has provided the room to increase investment in our future.

Today, each of our four core businesses has a strong sense of purpose, clear strategy, has embarked on a funded roadmap to build contemporary, relevant customer propositions to win in the marketplace, each with positive momentum and each delivering shareholder value.

Something we have not been able to say before.

Business

I want to touch on a few financial highlights.

Compared to a year ago, we grew revenue double-digit in all four businesses, achieving records in Commercial, Institutional and New Zealand.

Revenue growth far exceeded cost growth across the Board– averaging 14% overall.

As you can see on the slide, Business line profit before provisions grew between 25% and 65%, and cash profit 23% overall.

Maile has made great progress repositioning Australia Retail to address the changing landscape.

We now have the operational capacity to deliver great customer outcomes and target the growth we want. We are growing share in Home Loans, with almost 30% of flow from Business Owners, because we are very good at processing complex applications.

This is a key segment for our strategy and an area where returns are more attractive.

ANZ Plus is delivering.

As of yesterday, ANZ Plus has $6.1 billion on deposit and growth continuing at pace with over 260,000 customers, 30% of which are new to bank in total, and 39% new to bank in March.

Our ANZ Plus digital home loan is in beta testing with loans being booked for staff members.

The join experience is generating the highest NPS scores of any major Australian bank, still improving, and second overall when looking at all financial services providers.

The cost of acquisition and service is materially lower than our traditional platform, with 90% of customers joining digitally without assistance.

Importantly, ANZPlus customers are increasingly engaged, with a 51% increase in average balances this half, 50% increase in customers setting a direct debit and 32% increase in those with direct salary deposits.

Customer engagement, operational performance, and cost to serve is materially better in Plus than the classic ANZ offering and peers, providing a platform for future growth.

As part of our broader ecosystem strategy, our investment in Cashrewards is producing exciting growth, approaching 2million members, with an increasing cohort of repeat users. Half on half those actively engaged increased 31% with a corresponding 34% increase in gross merchant value.

Our proposition of "Buy-now save-now", is a responsible offer, particularly in today's world with cost-of-living pressures, and is resonating strongly with customers, and driving real value to merchants.

It was great to recently welcome Clare Morgan as our new Group Executive for Australia Commercial. She inherits a great business, generating the highest Return on Equity in our group. Results were very strong with revenue up 30% versus a year ago, after adjusting for net gain on sale from divested businesses, and risk adjusted margins expending more than 270bp to 8.37%.

But we can do more, and we are investing at record levels to further transform our capabilities, automate processes and enhance our customer proposition. Despite that elevated investment, our commercial business already operates at a Cost-to-income level between 35% and 40%.

Commercial lending remains well secured and while headline growth over the past 12months was modest at 4%, it hides a lot of re-allocation at a segment level –solid growth in attractive areas like trade and manufacturing and a reduction in areas where returns are less attractive and relationships less strong. As we have shown in Institutional, this type of reallocation helps improve returns and reduce risk.

Institutional itself had a stellar half, delivering record revenue, up 35% versus the same period last year, with returns materially above the cost of capital in Australia, New Zealand and importantly International, which delivered its strongest revenue, profit and return on equity results, and without the benefits of one-offs.

We have spent 7 years rebuilding Institutional, and Mark has made the hard calls, focused on risk management, and investing where we have competitive advantage. The half-year return on equity for Institutional overall, was the highest in at least 15 years.

The result is not a one-off and builds on strong momentum from sustained reshaping and investment.

The key to Institutional success is our focus on servicing other Financial Institutions, particularly in the fast growing, high return area of payments and currency processing, where we have a competitive advantage and significant market leadership. The growth in these processing platforms is impressive as we gain share and reinvest the benefits of scale into further improving our propositions. As you know, the business is capital light with very low marginal cost of production.

There are two drivers of growth worth commenting on. First has been our increased focus and success servicing State governments, where we have gone from zero share for the last 100 years to winning a material portion of the New South Wales mandate and more recently South Australia. These relationships will underpin processing volumes for many years to come.

Secondly, providing competitive and compelling processing platforms is all about technical and operational capability. Over the years we have seen more competitors exit due to lack of scale and the technology investment required to stay relevant. Interestingly we have won even more business because of some recent high profile international bank failures as customers seek highly regarded services from well rated banks like ANZ.

These platform services are hard to provide, require specialist expertise and on average produce very long term, loyal relationships. I want to stress how important this business has become for ANZ – it's large, fast growing and the highest returning component of Institutional.

Strong Institutional returns were further enhanced from recent APRA capital reforms, which will further enhance our ability to compete, particularly internationally.

This result is further evidence that Institutional is a positive differentiator for ANZ.

In New Zealand, despite more acute economic challenges exacerbated by the cyclone, the strength of our franchise was evident, our business maintained its strong market leadership position and delivered reasonable financial results, while helping customers navigate significant change and, in many cases, stress.

Feedback from our frontline in New Zealand, and from my own time on the ground, suggests business confidence remains subdued as high interest rates and escalating costs impact business profitability against a backdrop of weakening demand. As a result, we are starting to see the early signs of stress across business and retail, albeit off record lows. Despite that, levels of past due loans for retail customers are at levels still substantially lower than Australia and lower than those we experienced prior to COVID

A short and shallow recession in New Zealand is looking probable. We are well placed to assist customers and manage stress given the strength of our franchise, balance sheet and provisions for potential New Zealand credit losses which are higher than at any time in our history.

Before turning to the outlook more broadly, it would be remiss not to comment on recent market turbulence.

They say history never repeats, but it rhymes, and while the recent turmoil is not a repeat of the GFC or other crises that we experience with some regularity, there are many aspects that rhyme– specifically, the impact of a rapidly changing environment on those across the economy with high levels of debt, poor business models and who lack agility.

Many commentators have suggested that the issues confronting Silicon Valley Bank and Credit Suisse are isolated.

I am not so sure. When considering global interest rates, you can't go from zero to 100 in record time and expect limited casualties.

There may be more turmoil to come, as we have seen this week with First Republic Bank, and while it's easy to dismiss this as happening somewhere else, in a hyper-connected world, what happens elsewhere, impacts us faster than ever.

We therefore expect to see ongoing stress globally, in financials, commercial property, construction, and related supply chains.

Closer to home, there has been recent press regarding emerging stress in the small business sector. That is undoubtedly true across the economy, however our own book has yet to see any material change from that reported as of September last year.
That may feel counterintuitive, but my team and I have spent the last few months visiting our customers across the network, here and abroad and the feedback has been remarkably consistent.

Despite obvious pressures and rapid change in the environment, overall, our customers feel robust, even if wary about the future.

In particular, the Australian economy remains resilient, still characterised by excess demand – low unemployment, abundant opportunities, strong wages growth and strong terms of trade. Given the need for further investment in energy transition, housing, defence and infrastructure, it's difficult to see us going back to a low-inflation, low-interest rate environment for quite some time.

As I said, this will have consequences for the business sector more broadly, however years of strict customer selection and repositioning of our Institutional and Commercial businesses, means this is a modest cohort for ANZ.

In addition, higher rates will be more challenging for households, particularly those with higher levels of debt, more exposed to cost-of-living challenges, or who have less stable employment.

In days gone by, we would have had limited capacity to predict emerging stress for our consumer and small business customers. The investments we have made in data and analytics, which was turbo charged during COVID, means we are better equipped to predict stress and act quickly to help customers avoid the worst. We are already seeing the benefit of that approach, which is helping contain the number of customers behind on repayment.

And while the challenges of higher interest rates and consumer price inflation is new, we have been living through asset-price inflation for a while, most notably in housing, and we can all see the damage that does to social equity.

There was hope that higher rates would lead to a moderation in house prices, and while recent price declines have taken some of the COVID support induced froth out of the market, there are already signs that house prices are stabilising, with many predicting prices rise from here.

That will create challenges. Not the least of which is the combined impact of stable and potentially higher house prices at the same time that interest rates are rising, putting further pressure on younger Australians and Kiwis, particularly those without parental support, seeking to buy their first home.

That can't continue without long term consequence and there is pressure on governments, and business, to restore balance.

ANZ is playing a role by increasing our lending in affordable housing, on both sides of the Tasman, and supporting new business models like Assemble in Australia or our "BluePrint to Build" program in New Zealand, which has helped more than 8,000 Kiwis build new homes with discounted lending. More broadly, we have already committed $10bn to fund affordable housing by 2030, and please to have booked $4.4bn to date. This is the right thing to do but also a significant opportunity.

So, while the outlook is challenging, the best protection for our communities is that employment remains strong, and banks have capacity to support customers who get into difficulty and lend to those seeking opportunity.

As those opportunities emerge, wherever they may be, ANZ is well placed with the most diverse portfolio of any bank, big or small, local, or international, operating in our region, with a proven track record.

Execution is key, but better to have options than be locked in to one major asset class, or customer segment, so we will continue to manage our portfolio dynamically focused on risk-adjusted returns.

In fact, proactive management of capital will be even more important given more challenging conditions and tougher competition, particularly in Australian Retail.

In closing, this was an excellent result with all businesses performing well, reinforcing our strategy, commitment to simplification and disciplined execution.

We achieved more strategically this half than in any prior – including establishing the Non-Operating Holding Company structure – and I thank shareholders for their support on that important change- completing BS11 - the single largest regulatory program in our history, generating momentum with ANZ Plus, making further progress with our application to acquire Suncorp Bank, selling our Australian Data Centres as part of our migration to lower cost, more secure cloud technology and taking further steps building the partnerships for our ecosystem strategy – namely growing Cashrewards and our investment in View Media Group.

These achievements reflect growing execution capacity which is important as we face into a more challenging future.

With that context, for the remainder of the year and beyond, my team and I are focused on 5 key areas, positioning ANZ for long term success, and playing an active role in shaping a better Australia and New Zealand:

- First and foremost, preparing for a successful approval and integration of Suncorp Bank to enhance our ability to compete and invest in a better Retail and Commercial proposition in Australia, particularly in Queensland which has abundant opportunity,
- Second, further investing in the differentiation of our Australia Retail business on the lower cost, more flexible, ANZ Plus platform,
- Third, continuing to grow Commercial Banking, Sustainable Finance, and the payments and currency platforms in Institutional, with selective growth in Australian and New Zealand Home Loans,
- Fourth, maintaining our risk discipline and continuing to recycle capital to improve risk adjusted returns, and
- Fifth, increasing our focus on productivity while protecting our culture and employee engagement.

And despite uncertainties, I am confident we have the right structure and experienced executives to deal with the challenges. But my confidence runs deeper. We look ahead with the full support of our incredible team at ANZ. Their unrivalled commitment to our culture, our customers and the community is our best asset.

They are very clear on our purpose of shaping a world where people and communities thrive, and we continue to take pride in our industry leading employee engagement.
And with that I will hand you over to Farhan.

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